

# Directors' Report

## Purpose of the Directors' Report

The purpose of the Directors' Report is to provide shareholders with certain statutory information about the Company, its Directors and operations. The Business Review, which forms part of the Directors' Report, informs shareholders and helps them assess how the Directors have performed their duty to promote the success of the Company. In addition, as a company traded on the London Stock Exchange, the Company is required to provide information which includes amongst other things, details of the Company's share capital, voting rights, rules on directors' appointments and significant agreements that alter on change of control.

The Directors are pleased to present their Annual Report on the business of the Group, together with the financial statements and auditors' report, for the year ended 31 March 2010.

## Principal Activities

Vedanta Resources plc is the UK parent company of a diversified metals and mining group. The Group's principal operations are in India, Zambia and Australia. The major metals produced are aluminium, copper, zinc, lead, silver and iron ore. The Group is also producing commercial power. Analysis of revenue, operating profit, principal activities and geographical origins appears in Note 3 of the financial statements and a list of the principal subsidiaries and associated undertakings of the Group may be found in Note 36 to the financial statements.

## Business Review

This review has been prepared in accordance with the Companies Act 2006 which requires the Company to set out a fair review of the business of the Group during the financial year, including an analysis of the position of the Group at the end of the financial year and the trends and factors likely to affect the future development, performance and position of the business.

The information that fulfils the requirements of the Business Review, including principal risks and uncertainties and key performance indicators, can be found within the following sections, which are incorporated in this report by reference:

Information	Location in the Annual Report	Page
Key performance indicators	Business Review	10
Description of the principal risks and uncertainties facing the Group	Financial Review	40
Strategy	Chairman's Statement and Business Review	16
Future developments	Business Review	16
Review of operations	Business Review	16
Financial review	Financial Review	36
Environmental matters	Sustainable Development Report	50
Health and safety matters	Sustainable Development Report	50
Community issues	Sustainable Development Report	50

The Business Review and other sections of this Annual Report contain forward looking statements. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward looking statements and past performance are therefore not guarantees of future performance. The information contained in the Business Review has been prepared on the basis of information and knowledge available to Directors at the date of preparation and the Company does not undertake to update or revise the content during the year ahead.

## Corporate Governance

In accordance with the Financial Services Authority's Disclosure and Transparency Rules ('DTR') 7.2.1 the disclosures required by DTR7.2.2R to DTR 7.2.5 and DTR7.2.7 may be found in the Corporate Governance Report on pages 65 to 72. Information referred to in DTR7.2.6 is located in this Directors' Report.

## Post Balance Sheet Events

There have been no significant events since the balance sheet date.

## Dividends

The Directors recommend a final dividend for the year ended 31 March 2010 of 27.5 US cents per ordinary share (2009: 25 US cents per ordinary share). Subject to shareholders approving this recommendation at the Annual General Meeting on 28 July 2010, the final dividend will be paid on 4 August 2010 to shareholders on the register of members as at 9 July 2010.

Taken together with the interim dividend of 17.5 US cents per ordinary share paid to shareholders on 7 January 2010, the total dividend for the year is 45 US cents per ordinary share (2009: 41.5 US cents per ordinary share).

## Directors

The names, specific responsibilities and biographical details of the current Board of Directors are shown on page 12. Details of the remuneration of the Directors, their interests in the shares of the Company and service contracts are contained in the Remuneration Report on pages 73 to 79.

The following Directors held office during the year ended 31 March 2010:

	Appointed	Designation
<b>Executive Directors</b>		
AK Agarwal	16 May 2003	Executive Chairman
N Agarwal	24 November 2004	Deputy Executive Chairman
MS Mehta	1 October 2008	Chief Executive
<b>Non-Executive Directors</b>		
N Chandra	18 May 2004	Non-Executive Director
A Mehta	24 November 2004	Non-Executive Director
ER Macdonald	23 March 2005	Non-Executive Director

Unless otherwise determined by ordinary resolution, the minimum number of Directors (other than alternate Directors) shall be two however there is no limit on maximum number of Directors. The powers of the Directors are described in the Corporate Governance Statement on page 65.

#### Retirement of Directors

The Company's Articles require that at every Annual General Meeting one-third of the Directors, or if their number is not three or multiple of three, the number nearest to one-third, shall retire from office. The Directors to retire by rotation are those who have been longest in office since appointment or re-appointment.

Accordingly Mr Euan Macdonald, Mr Naresh Chandra and Mr Aman Mehta will retire by rotation at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election.

#### Directors' and Officers' Liability Insurance and Indemnities

The Company purchases and maintains liability insurance for its Directors and officers and those of the subsidiaries of the Group, as permitted by the Companies Act 2006. The insurance policy does not provide cover where the Director has acted fraudulently or dishonestly. The Company believes that it is appropriate to provide such cover to protect Directors from innocent error as the Directors carry significant liability under criminal and civil law and under the UK Listing, Prospectus and Disclosure and Transparency Rules, and face a range of penalties.

In addition the Articles of Association of the Company contain an indemnity provision in favour of the Directors of the Company against proceedings brought by third parties, subject to the Companies Act 2006, to allow the Company to pay defence costs for the Director where the Director is exonerated.

#### Employees

Information on the Group's employees and its policies with respect to employees can be found in the Sustainable Development Report on pages 50 to 64.

#### Charitable Donations

During the year, the Group made charitable donations of US\$1.1 million paid to the Sterlite Foundation (2009: US\$0.86 million) and other charitable donations of US\$0.63million (2009: US\$1.52 million).

Further details about the Group's involvement with local communities during the year can be found in the Sustainable Development Report on pages 50 to 64.

#### Political Donations

It is the Board's policy that neither Vedanta nor any of its subsidiary companies may, under any circumstances, make donations or contributions to political organisations within the United Kingdom or European Union. In exceptional circumstances where such political donations or contributions are to be paid in the United Kingdom and European Union and if deemed necessary for legitimate business reasons, they will not be made without the approval of the Board and the shareholders in the general meeting.

During the year, the Group made political donations in India of US\$3.66 million either through a trust or directly in respect of the Indian general election. The Board believes this will encourage and strengthen the democratic process in India.

#### Supplier Payment Policy

The Group does not follow any specific external code or standard on payment terms. Instead, responsibility for determining payment terms is delegated to the individual businesses within the Group, which take into consideration the commercial circumstances, local market and industry practice. The Group's policy is either to settle terms of payment with suppliers when agreeing the terms of each transaction or to ensure that the supplier is aware of the individual business's usual payment terms. Payment is made in accordance with contractual and other legal obligations and reflects local market practices.

Trade creditor days of the Company at 31 March 2010 were 62 days (2009: 86 days).

#### Value of Land

Land is carried in the balance sheet at historic cost. It is not practical to estimate the market value of land at each balance sheet date.

# Directors' Report continued

## Research and Development

The Group's business units carry out research and development activities necessary to further their operations.

## Material Shareholdings

As at 24 May 2010, the Company had been notified under the Disclosure and Transparency Rules, of the following significant voting rights in its shares:

Name of holder	Number of ordinary shares of US\$0.10 each	Percentage of total ordinary share capital
Volcan Investments Ltd	162,250,000	60%

1 The voting rights at 31 March 2010 were 268,115,568 ordinary shares (net of treasury shares).

## Articles of Association, Share Capital and Voting Rights

The following description summarises certain provisions in the Company's Articles of Association (the 'Articles') and applicable English law concerning companies (the Companies Act 2006, the 'Act'). This is a summary only and the relevant provisions of the Act or the Articles should be consulted if further information is required. Copies of the Company's current Articles are available for inspection at the Company's registered office.

### Amendments to the Articles of Association

This year it is proposed to amend the Articles to consolidate all the changes made under the Companies Act 2006 which have been introduced in stages over the last three years. The Articles may be amended by special resolution of the shareholders and therefore a special resolution will be put to shareholders at the 2010 Annual General Meeting.

### Dividends and Distributions

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. The Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution. The treasury shares are not entitled for dividend.

Dividends may be declared and paid in any currency or currencies that the Board shall determine. The Board may also determine the exchange rate and the relevant date for determining the value of the dividend in any currency.

### Rights and Obligations Attaching to Shares

The rights and obligations attaching to the ordinary and deferred shares are set out in the Articles of Association. Details of the authorised and issued share capital together with movements in the Company's issued share capital during the year are shown in Note 31.

In February 2006, Vedanta Finance (Jersey) Limited ('VFJL') issued 4.6% US\$725 million guaranteed convertible bonds (the '2026' Bonds'). The bonds are first convertible into exchangeable redeemable preference shares to be issued by VFJL, which are then exchanged automatically for ordinary shares of Vedanta Resources plc represented by depositary receipts, which do not carry voting rights. The 2026 Bonds were redeemed in February 2010. Further details of the convertible bonds are set out in Note 25.

Each ordinary share carries the right to one vote at general meetings of the Company. Holders of deferred shares are not entitled to attend, speak or vote at any general meeting of the Company, nor are they entitled to the payment of any dividend or to receive notice of general meetings.

Further details of the rights attaching to the deferred shares are set out in the Articles and summarised in Note 31.

### Variation of Rights

Subject to the provisions of the Act, the rights attached to any class may be varied with the consent of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class.

### Deadlines for Exercising Voting Rights

Votes may be exercised at general meetings in relation to the business being transacted either in person, by proxy or, in relation to corporate members, by corporate representative. The Articles provide that forms of proxy shall be submitted not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

### Restrictions on Voting and the Transfer of Shares

No member shall be entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares in the capital of the Company, either in person or by proxy, in respect of any share held by him unless all moneys payable by him in respect of that share have been fully paid. Furthermore, no shareholder shall be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll if he has been served with a notice after failing to provide the Company with information concerning interests in his shares that is required to be provided under the Act.

### Issue of Shares

Under the Articles of Association, the Company has authority to allot new shares in the Company. Such authority would be exercised having regard to the Statement of Principles published by the Pre-emption Group.

### Shares Held in Uncertificated Form

Subject to the provisions of the Uncertificated Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

### Purchase of the Company's Own Shares

At the end of the year, the Directors had authority, under a shareholders' resolution dated 27 July 2009, to make market purchases of up to approximately 10% of the Company's ordinary shares.

The authority expires at the conclusion of the Annual General Meeting of the Company in 2010 or on 27 October 2010, whichever is the earlier. A resolution to obtain a further authority will be proposed at the 2010 Annual General Meeting.

During the year the Company announced increases to its share buyback programme from US\$250 million to US\$850 million to purchase up to 10% of the Company's ordinary shares using the above authority. The Board believes the buyback programme is value accretive to shareholders and will be funded from the Group's substantial cash balances of over US\$7.2 billion. Up until April 2010 all shares purchased were held in treasury for subsequent cancellation or sale. From April 2010 purchases will be made either by the Company or by an independent company Gorey Investments Limited ('Gorey'), funded by a wholly-owned subsidiary of Vedanta, Vedanta Jersey Investment Limited. Shares purchased by Gorey will be treated in the consolidated accounts as treasury shares and the shares will be available for purchase by Vedanta itself (subject to any required approvals), as consideration for future acquisitions or sale to third parties to raise additional capital if and when desirable.

During the financial year ended 31 March 2010 the Company made the following purchases of its ordinary shares:

	Number of shares	Percentage of issued share capital	Nominal value	Average purchase price
Shares purchased and put into treasury	11,502,873	3.9%	1,150,287.30	£19.28

As at 31 March 2010 the Company held a total of 21,080,683 ordinary shares in treasury equal to 7.12% of the issued share capital.

### Significant Agreements: Change of Control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, and capital market borrowing. Some of these are considered to be significant in terms of their likely impact on the business of the Group as a whole.

All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions.

Under the terms of the US\$1.25 billion 5.50% Guaranteed Convertible Bonds issued in July 2009 and the US\$883 million 4.0% Guaranteed Convertible Bonds issued in March 2010, following a change of control of the Company investors have the option to require the issuer to redeem their Bonds at the principal amount, together with accrued and unpaid interest, or convert their bonds at an adjusted exchange price for a certain period following the relevant event. Under the terms of US\$500 million 8.75% Bonds due 2014 and US\$750 million 9.5% Bonds due 2018 the Company is required to make an offer to purchase all of the outstanding bonds if change of control event has occurred together with a rating decline. Under the terms of US\$1 billion and US\$373 million Syndicated loan and US\$200 million loan from ICICI Bank UK plc, the majority lenders may declare the loan immediately payable upon the occurrence of change of control event.

There is no contract between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

### Disclosure of Information to Auditors

Each person who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# Directors' Report continued

## Directors' Responsibility Statement

Each Director further confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Business and Financial Reviews, which are incorporated into the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

## Re-appointment of Auditors

A resolution to re-appoint the auditors, Deloitte LLP, will be proposed at the forthcoming Annual General Meeting. The re-appointment of Deloitte LLP has been approved by the Audit Committee, which will also be responsible for determining their remuneration on behalf of the Board, subject to the approval of shareholders at the forthcoming Annual General Meeting.

## Policy on Derivatives and Financial Instruments

An explanation of the Group's financial management objectives and policies together with details of the Group's exposure to price risk, credit risk, liquidity risk and foreign currency risk appears in Note 26 to the financial statements.

## Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 18 to 47. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 36 to 47. In addition Note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group requires funds both for short-term operational needs as well as for long-term investment programmes mainly in growth projects. The Group generates sufficient cash flows from its current operations which, together with the available cash and cash equivalents and liquid financial asset investments, provide liquidity both in the short-term as well as in the long-term. Anticipated future cash flows and undrawn committed facilities of US\$3,204.8 million, together with cash and liquid investments of US\$7,239.4 million as at 31 March 2010, are expected to be sufficient to meet the ongoing capital investment programme and liquidity requirement of the Group in the foreseeable future.

The Group has a strong Balance Sheet that gives sufficient headroom to raise further debt should the need arise. The Group's current ratings from Standard & Poor's, Moody's and Fitch are BB, Ba1 and BBB respectively. These ratings support the necessary financial leverage and access to debt or equity markets at competitive terms, taking into consideration current market conditions. The Group generally maintains a healthy net debt-equity ratio and retains flexibility in the financing structure to alter the ratio when the need arises. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Annual General Meeting

The seventh Annual General Meeting of the Company will be held at on 28 July 2010 at 3pm. The Notice convening the Annual General Meeting accompanies this Annual Report and sets out details of the business to be considered.

## Deepak Kumar

Company Secretary  
5 May 2010

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